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## Canada

## Frozen Potato Products

## Annual

## 2004

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**Report Highlights:**

This report highlights the production, trade and investment developments in Canada's frozen french fry processing industry.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Ottawa [CA1]  
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## Executive Summary

- \* Total Canadian frozen french fry exports in MY2003/04 were the highest on record, surpassing 1.0 million metric tons for the first time, valued at \$662 million. Increases were noted to all major markets.
- \* Canadian frozen french fry exports to the United States, which accounted for more than 80% of total in MY2003/04, increased to 822,909 metric tons, 23% above the year earlier level. With an export value of more than \$0.5 billion, Canadian exports of frozen french fries are the third most valuable Canadian agricultural export to the United States after beef and pork.
- \* For MY2004/05, Canadian potato processors are expected to continue to move increased product into all markets. Total exports could increase 10-15% above last year's record.
- \* U.S. exports of frozen french fries to Canada increased 17.5% during MY2003/04 to 36,068 metric tons from 30,674 metric tons a year earlier. Value surpassed \$33.0 million.
- \* Trends such as the "low carb" diet are believed to be pushing lower the Canadian per capita consumption rate for food service frozen french fries. In addition, grocery product industry surveys for 2003 show that retail frozen french fry sales sharply under performed the average rate of sales increase for the total frozen food sector.
- \* McCain Foods Ltd., Canada's largest potato processor, signed an agreement to purchase Midwest Food Products Inc., and its french fry processing facility in Carberry, Manitoba. McCain intends to upgrade the facility.

## Section I. Production

It is estimated that more than half of Canadian potato production is processed into frozen french fries and that almost three-quarters of total frozen french fry production is exported. Driven by soaring export market demand, Canadian potato processors increased their production of frozen french fries to an estimated 1.39 million metric tons during MY2003/04, an increase of more than 18% from a year earlier. Part of the reason for the increase was the opening of the Simplot plant in Portage la Prairie, Manitoba, that has an annual capacity of more than 300 million pounds (136,000 metric tons) for frozen french fries and other potato products. According to the company, the plant is among the most efficient facilities of its kind in the world, and is designed to accommodate expansion that could double its initial capacity.

For MY2004/05, a production increase in the neighborhood of 10% is possible boosting total estimated production beyond 1.5 million metric tons.

Country Commodity	Canada Potato Products, Frozen					
	(MT)(MT, Net Weight)					
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [	Estimate [	DA Official [	Estimate [	DA Official [	Estimate [
Market Year Begin	07/2002			07/2003		07/2004
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	140000	140000	140000	140000	140000	140000
Production	1170000	1170000	1245000	1390000	0	1535000
Imports	30988	30988	32000	36778	0	40000
TOTAL SUPPLY	1340988	1340988	1417000	1566778	140000	1715000
Exports	766349	767702	820000	1015465	0	1165000
Domestic Consumption	434639	433286	457000	411313	0	400000
Ending Stocks	140000	140000	140000	140000	0	150000
TOTAL DISTRIBUTION	1340988	1340988	1417000	1566778	0	1715000

## Industry Developments

McCain Foods to Purchase Midwest Food Products Inc.

In September 2004, McCain Foods signed an agreement to purchase the assets of Midwest Food Products Inc., including the company's major French fry processing facility in Carberry, Manitoba. The completion of the purchase transaction is pending appropriate regulatory approvals. No purchase price was disclosed. The Midwest Food Products plant is located just south of Carberry. Originally established in 1962, the facility employs about 400 people and produces frozen french fries and other potato products for customers throughout North America. As soon as the acquisition is complete, McCain intends to upgrade the facility by investing up to \$13 million in plant improvements.

For a review of potato processing and investment in Canada see last year's Frozen Potato Products Annual CA3067.

## Potato Area

The 2003 Canadian potato crop was the highest on record at 5.3 million metric tons increasing storage supplies of potatoes for processing MY2003/04. As a result, Canadian potato producers planted fewer acres during 2004, the first time in 16 years that they had done so. Cuts in contracts for processing potatoes and weaker prices for the 2003 crop were the major factors for reduced potato area in 2004.

The 2004 potato area is estimated by Statistics Canada to be 439,000 acres (177 700 hectares), down 4% from the 2003 crop of 457,300 acres (185 100 hectares). Area declines in Manitoba, Ontario, Alberta and Quebec accounted for most of the reduction in planted area. Prince Edward Island showed no change.

## Consumption

Statistics Canada does not keep an official data series on the Canadian consumption of frozen french fries. Anecdotal evidence from the foodservice industry suggests that the Canadian consumption level of frozen french fries peaked sometime during 2003. In addition to their being a wider variety of foods offered in Canadian foodservice establishments, trends such as the "low carb" diet are believed to be pushing lower the per capita consumption rate for food service frozen french fries. In addition, grocery product industry surveys for 2003 show that retail frozen french fries sales sharply under performed the average rate of sales increase in the total frozen food sector.

## Section II. Trade

### Frozen French Fry Exports by Marketing Year

Total Canadian frozen french fry exports in the marketing year ending June 2004 were the highest on record surpassing 1.0 million metric tons for the first time and valued at \$662 million. As mentioned in the Production Section, the high capacity Simplot plant in Portage la Prairie, Manitoba came on stream during MY2003/04 and significantly increased the availability of frozen french fries for export.

In MY2003/04, exports increased a record 32% from the prior year reflecting significant increases to all major export markets. Exports of frozen french fries to the United States, which accounted for more than 80% of total during MY2003/04, increased to 822,909 metric tons, 23% above the year earlier level. Of other major markets in MY2003/04, exports to Japan grew by 20% and shipments to Mexico increased more than three times from their level a year earlier. Increased Canadian exports of frozen french fries to Mexico reflect the elimination of Mexico's tariff rate quota under the NAFTA.

Canadian potato processors export frozen french fries to more than 75 countries. With only minor exceptions, Canadian frozen french fry exports in MY2003/04 increased substantially to all destinations.

For MY2004/05, Canadian potato processors are expected to continue to move increased product into all markets. Total exports could increase in the range of 10-15%.

Canadian Frozen French Fry Exports  
Marketing Years  
Units: metric tons  
HS2004.10\*

Country	Jul 01-Jun 02	Jul 02-Jun 03	Jul 03-Jun 04	% change
-- The World --	735,892	767,702	1,015,465	32%
United States	653,438	668,360	822,909	23%
Japan	35,643	43,878	52,822	20%
Mexico	3,785	7,346	24,697	236%
Philippines	4,251	5,190	9,455	82%
Guatemala	988	1,452	8,761	503%
Venezuela	5,600	1,791	8,350	366%
Taiwan	4,269	3,316	8,209	148%
Korea, South	4,688	5,991	7,942	33%
Indonesia	1,695	3,610	6,836	89%
Costa Rica	283	1,135	6,558	478%
China	808	2,354	6,277	167%
All Others	20,444	23,278	52,649	126%

\* HS category may include other frozen potato products  
Source: World Trade Atlas

## Value of Marketing Year Exports

As shown below, total Canadian exports of frozen french fries exceeded \$662 million during MY2003/04. Exports of Canadian frozen french fries to the U.S. during the same period reached \$538 million. Canadian exports of frozen french fries are the third most valuable Canadian agricultural export to the United States after beef and pork.

### Value of Canadian Frozen French Fry Exports

Marketing Years

Units: US\$ millions

Country	Jul 01/Jun 02	Jul 02/Jun 03	Jul 03/Jun 04
-- The World --	470.6	485.1	662.3
United States	412.6	414.8	538.0
Japan	26.7	34.3	40.8
Mexico	2.1	3.2	9.6
Philippines	3.0	3.4	5.9
Guatemala	0.8	1.0	5.3
Venezuela	3.5	1.1	4.8
Taiwan	2.6	1.9	5.1
Korea, South	3.3	4.3	5.8
Indonesia	1.0	2.8	4.7
Costa Rica	0.2	0.7	3.6
China	0.5	1.6	4.2
All Others	14.3	16.1	34.6

\* HS category may include other frozen potato products

Source: World Trade Atlas

**Exports by Calendar Year**

The following table shows Canadian frozen french fry exports on a calendar year basis.

## Canadian Frozen French Fry Exports by Calendar Year

Units: metric tons

HS 2004.10\*

Country	2001	2002	2003	Jan-Aug 2003	Jan-Aug 2004	% change
-- The World --	690,166	731,584	888,975	555,603	712,178	28%
United States	604,926	650,882	738,711	465,427	573,757	23%
Japan	36,569	39,157	46,317	31,480	36,965	17%
Mexico	2,605	4,218	17,820	9,697	16,916	74%
Philippines	6,579	3,178	5,154	2,126	7,312	244%
Korea, South	5,634	2,620	8,341	5,872	6,739	15%
Indonesia	1,286	790	5,430	2,401	6,313	163%
Taiwan	5,446	2,613	6,702	4,077	5,109	25%
Guatemala	356	250	3,897	1,772	4,940	179%
China	1,977	2,954	3,478	2,212	4,919	122%
Venezuela	3,675	4,904	8,250	5,124	4,746	-7%
Costa Rica	1,897	1,220	3,067	1,495	4,344	191%
Malaysia	1,905	1,756	7,112	3,921	4,211	7%
Singapore	540	849	5,341	3,598	4,169	16%
Saudi Arabia	2,536	2,644	3,553	2,488	2,215	-11%
Trinidad & Tobago	2,583	1,967	3,555	2,048	2,057	0%
All Others	11,650	11,580	22,245	11,866	27,463	131%
% to U.S.	88%	89%	83%	84%	81%	

\* may include other frozen potato products

Source: World Trade Atlas



## Imports by Marketing Year

U.S. exports of frozen french fries to Canada increased 17.5% during marketing year 2003/04 to 36,068 metric tons from 30,674 metric tons a year earlier. The majority originated in Washington State and were exported to British Columbia.

Canada's strict packaging and labeling regulations imposed during the 1990s limited marketing opportunities for U.S. french fries for the foodservice industry during the expansion years of the potato processing industry in Canada allowing those Canadian processors to capture virtually all of the domestic market. After many years of U.S. representation arguing fair market access, the Canadian import rules were relaxed in December 1998 allowing the common U.S. food service industry sizes, but by that time Canadian processors had achieved a dominant presence in the marketplace.

Canadian Frozen French Fry Imports  
Marketing Years (July/June)  
Units: metric tons and US\$ million  
HS 2004.10\*

Country	Quantity			Value		
	MY 2001/02	MY 2002/03	MY 2003/04	MY 2001/02	MY 2002/03	MY 2003/04
The World	31,250	30,988	36,778	23.9	25.2	34.0
United States	31,174	30,674	36,068	23.8	25.0	33.5
Netherlands	23	172	536	0.0	0.1	0.3
Sweden	-	-	80	-	-	0.1
Japan	5	20	45	0.0	0.0	0.1
All Others	48	122	49	-	-	-

\*HS category may include other frozen potato product

Source: World Trade Atlas

Canadian Tariff Rates on Frozen French Fries		
HS 2004.10.00	Trade Agreement & Preferential Tariffs	MFN Rate
		6%
United States	FREE	
Commonwealth Caribbean Countries	FREE	
Least Developed Countries	FREE	
Mexico	FREE	
Chile	FREE	
Costa Rica	FREE	
Source: Canada Customs Tariff Schedule, January 1		

### Section III. Marketing

#### Packaging and Labeling

For retail sale, Canada's Processed Product Regulations stipulate that the standard container sizes for frozen french fries are: 250 g; 500 g; 1 kg; 1.25 kg; 1.5 kg; and 2 kg. On December 3, 1998 the regulations were revised to include "any size over 2 kg but not over 20 kg.." For U.S. exporters, the relaxed rule means they can export wholesale cartons of frozen french fries containing inner bags in the common U.S. food service industry sizes provided the inner bags have no markings. If inner bags are marked, full labeling requirements apply (bilingual labeling, ingredients, etc.).

#### Nutritional labeling

On January 1, 2003, Canada published new regulations making nutrition labeling mandatory on most food labels at the retail level. There are also new requirements for nutrient content claims; a new mandatory Nutrition Fact box, and for the first time in Canada, diet-related health claims for foods will be permitted. U.S. frozen potato products destined for the Canadian retail market must meet the same labeling requirements as foods produced in Canada. U.S. food manufacturers will have a 3-5 year transition time (depending on company size) to comply with the new nutrition labeling requirements. To review the new Canadian regulations for nutrition labeling for pre-packaged products and to view the new mandatory Nutrition Fact standards, go to the following Health Canada web page: [http://www.hc-sc.gc.ca/hpfb-dgpsa/onpp-bppn/labelling-etiquetage/index\\_e.html](http://www.hc-sc.gc.ca/hpfb-dgpsa/onpp-bppn/labelling-etiquetage/index_e.html)

#### Exporter Guide

U.S. processed food exporters interested in the Canadian market can consult the Exporter Guide CA4068 prepared by FAS/Ottawa. The Exporter Guide provides general information concerning Canadian regulatory requirements and details the FAS sponsored services available to U.S. exporters interested in entering the Canadian Food market.

#### Exchange Rates

Where prices and values in this report are expressed in Canadian dollars, the exchange rates are: 2002, C\$=US \$.6368; 2003, C\$=US\$.7135; October 2004 estimated, C\$=US\$.8000

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